



REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND COUNCIL ON UMHLABUYALINGANA MUNICIPALITY

Comment [A1]: Apply changes from this report to MR

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Umhlabyalingana Municipality set out on pages XX to XX, which comprise, the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, the cash flow statement and the statement of comparison of budget information with actual information for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Umhlabyalingana Municipality as at 30 June 2014, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

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Emphasis of matter

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.

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Irregular expenditure

8. As disclosed in note 24 to the financial statements, the municipality incurred irregular expenditure of R30,14million as a result of proper procurement processes not being followed.

Comment [A2]: Add in additional matter heading and paragraph; add in unaudited disclosures s125 - please make same changes to the MR - completed

Additional matters

9. I draw attention to the matters below. My opinion is not modified in respect of these matters.

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Unaudited disclosure notes

Comment [A3]: Bullet

10. In terms of section 125(2)(e) of the MFMA the municipal entity is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

11. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

12. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objective presented in the annual performance report of the municipality for the year ended 30 June 2014:

Objective 4: To provide and facilitate the delivery of basic service to minimum Standard on pages XX to XX

Comment [A4]: confirm that these are correct otherwise use X's

13. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

14. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the objectives. We further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing*

programme performance information (FMPPI).

15. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
16. The material findings in respect of the selected objectives are as follows:

To provide and facilitate the delivery of basic service

Usefulness of reported performance information

Consistency of objectives, indicators and targets

Reported objectives not consistent with planned objectives

17. Section 41(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan (IDP) to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. All of the reported objectives, 64% of the indicators and 50% of the targets were not consistent with those in the approved integrated development plan. This was due to the IDP manager post being vacant for the 2013/2014 financial year and other employees were not aware of the requirements of section 41 (c) of the MSA.

Targets not approved

18. Section 54(1) (c) of the MFMA determines that the service delivery and budget implementation plan adopted by the municipal council may be amended only if the council approves an adjustments budget. Changes to the service delivery and budget implementation plan in the year have to be made in accordance with the process as prescribed per section 28 of the MFMA. Material changes were made to the objectives in the annual performance report, without following the process as prescribed in section 28 of the MFMA.

Measurability of indicators and targets

Performance targets not time bound

19. The FMPPI requires the period or deadline for delivery of targets must be specified. A total of 50% of the targets were not time bound. This was because management was not aware of the requirements of the FMPPI due to a lack of proper systems and processes being in place.

Reliability of reported performance information

Validity, accuracy and completeness

Comment [A5]: select applicable ones

20. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to a lack of standard operating procedures or documented system descriptions for the accurate recording of actual achievements and technical indicator descriptions for the accurate measurement, recording and monitoring of performance and monitoring of the completeness of source documentation in support of actual achievements and of frequent review of the validity of reported achievements against source documentation.

Comment [A6]: very confusing - refer R3 - perhaps some 'ands' are missing - delete anything that is not relevant



Additional matters

20. I draw attention to the following matters below. These matters do not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

21. Refer to the annual performance report on pages XX to XX for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings selected on usefulness and reliability of the reported performance information for the objectives reported in paragraphs 17 to 22 of this report.

Comment [A7]: wrong numbers – correct numbers in format 22 to 26

Unaudited supplementary schedules

22. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not express a conclusion thereon.

Compliance with legislation

23. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

24. The adopted integrated development plan did not reflect and identify the key performance indicators and targets, as required by sections 26 and 41 of the MSA, as well as Municipal planning and performance management regulation 2(1)(c).
25. The annual performance report for the year under review did not include a comparison of the performance with set targets and a comparison with the previous financial year as required by section 46 (1)(b) of the MSA.

Comment [A8]: Select applicable one. completed

Annual financial statements

26. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements on non-current liabilities and current assets identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently resulting in the financial statements receiving an unqualified audit opinion.

Comment [A9]: Include others – eg disclosures
Check compliance workpaper/parag for the rest of it

Procurement and contract management

27. Awards were made to providers who are in the service of other state institutions or whose directors or principal shareholders are in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulations 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).

Comment [A10]: section

Comment [A11]: write in full 1st – see above

Comment [A12]: confirm that this is correct and ensure finding in MR - yes



Expenditure management

28. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

Internal control

29. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

30. Leadership did not exercise adequate oversight responsibility in respect of performance reporting and compliance with laws and regulations.

Financial and performance management

31. Senior management did not ensure that regular, accurate and complete financial, performance and compliance reports were prepared, which were supported and evidenced by reliable information.

Pietermaritzburg
28 November 2014



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

